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Alberta ECONOMIC OUTLOOK

OCTOBER, 1973

ALBERTA – NATIONAL AFFAIRS

The Federal Government is currently pursuing a policy of minimum interference in the economy. Its fiscal policy merely consists of restraining expenditure on current programmes. Its monetary policy, implemented by the Bank of Canada, is one of gradually easing down the rate at which the money supply is expanding while resisting upward pressure on short-term interest rates. This does not mean that monetary policy is sharply deflationary: the money supply still grew at an annual average rate of around 12 per cent in September, and Canadian short-term interest rates are lower than those abroad. The maintenance of relatively low interest rates is intended to lessen the chances of moving into a recession and to avoid the attraction of capital inflows which would lead to upward pressure on the value of the Canadian dollar. The Bank of Canada is being assisted in this aim by the stabilization of short-term interest rates in the U.S.

The recent realignment of international currencies has left Canadian exporters with a small edge in non-U.S. markets, and those U.S. markets where we might substitute our goods for European and Japanese goods which the currency realignment has made more expensive. In addition, the world shortage of raw materials can be expected to persist at least until mid 1974 ensuring strong markets for Canadian exports of those commodities. The only dull spot on the export scene is the decline in domestic auto sales in the U.S. which will adversely affect Canadian exports of autos and auto parts. The prospect to 1974 is therefore for continued export expansion.

Despite the recent easing of inflationary pressures, inflation will remain the major problem facing the Canadian economy in the remainder of 1973 and into 1974. To begin with, the world commodity price increases of the late summer have yet to work through to consumer prices. Second, wage increases on an average annual basis were only one per cent up on price increases during the second quarter, so that we can expect labour to bargain for compensatory increases in future collective agreements. Given the healthy state of profits – they have risen at an annual average rate of about 40 per cent in the first half of this year – these demands are likely to be met. The familiar

impact on the price level will follow.

The general outlook is for the economy to grow at 4 to 6 per cent to the middle of 1974. Unemployment is likely to rise somewhat with the slowing of economic growth but little improvement in the rate of inflation is to be expected.

ALBERTA – PROVINCIAL AFFAIRS

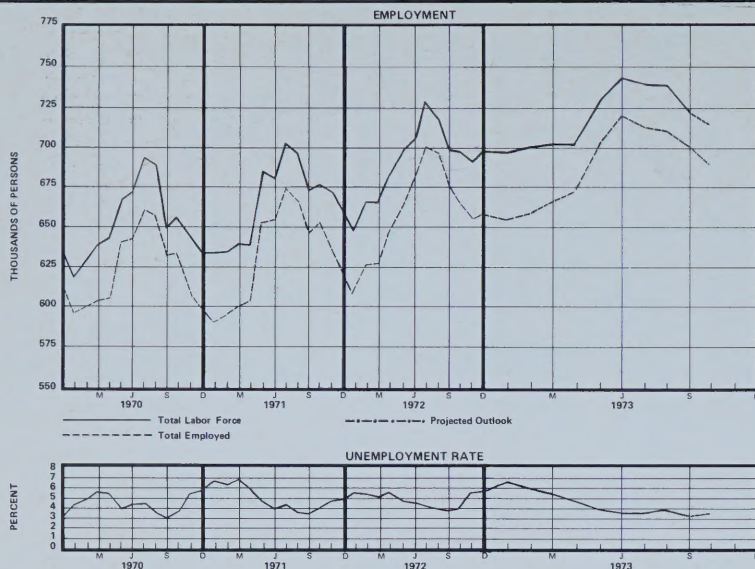
An Assessment of the Forest Based Economy of Alberta

The Canadian Forestry Service (Northern Forest Research Centre) at Edmonton, in co-operation with the Alberta Forest Service, is currently engaged in an economic study of the Alberta forest-based industry. The objective is measurement of the economic importance of this sector to the provincial economy in 1972. Detailed data will be collected on employment, wages and salaries paid, provincial revenues generated, costs of production and exports. Information on these important economic indicators is based on a questionnaire conducted by personal interview by members of the Forest Economics Research Group, Northern Forest Research Centre. Industries being surveyed include the sawmill, pulp and paper, veneer and plywood, wood preserving and miscellaneous forest industries. Additionally, a separate personal interview survey of the wholesale-retail lumber trade is being conducted to gather further information on inter-provincial flows of selected wood products. A preliminary report is expected by March, 1974.

Alfalfa Processing

The capacity and output of alfalfa processing plants in Alberta has increased rapidly during the past eighteen months. This upswing can be attributed to greater acceptance of alfalfa pellets and cubes as a feed supplement in Western Canada plus purchases by Japanese trading companies.

Production from five plants in 1972 was less than 50,000 tons, while the seven plants operating this year are expected to produce almost 100,000 tons. Two plants are currently in the construction phase, and three more are in the planning stages. The average capital cost of these plants is about \$800,000. One year ago, processors were getting



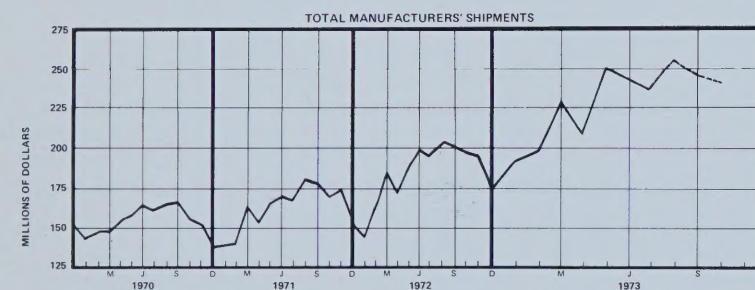
EMPLOYMENT

Seasonal declines in the labour force and total employed in Alberta for September were not as extensive as previously forecast. A labour force of 723,000 and total employed of 700,000 resulted in a total of 23,000 unemployed, or an unemployment rate of 3.2 per cent. The unemployment rate of 3.2 per cent in September, 1973 was .1 per cent less than one year ago due to employment growth exceeding the labour force growth rate during the previous one year period. For October the labour force is expected to be approximately 716,000 with the total employed and unemployed at 690,000 and 26,000 respectively. Prospects for November are for continued seasonal declines in the labour force and total employed.



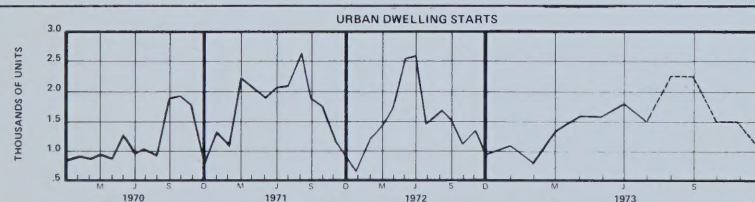
RETAIL TRADE

July's preliminary total of \$253 million was 12 per cent above the same month in 1972. This brings the preliminary total for retail trade for the first seven months to \$1,707 million, some 12 per cent above the same period in 1972. September and October's totals are expected to reach over \$263 million and \$282 million, respectively. Prospects for November indicate a total value of trade close to October's forecast level.



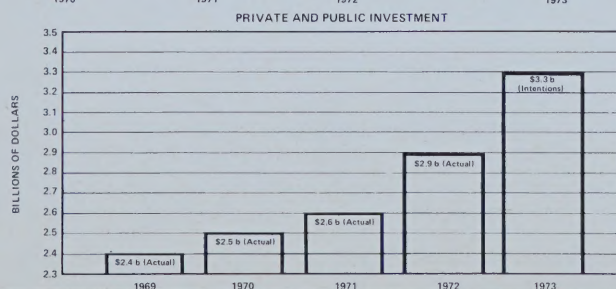
MANUFACTURING SHIPMENTS

To the end of July, 1973, total manufacturing shipments reached \$1,564 million, a 20 per cent increase over the same period in 1972. July's total rose by nearly 20 per cent over July, 1972, to \$236 million. The forecast for August indicates a total of just under \$256 million, followed by \$247 million, and \$242 million in September and October, respectively. Prospects for November are for the value of shipments to be close to October's forecast level, reflecting a continuation of the usual seasonal declines during the winter months.

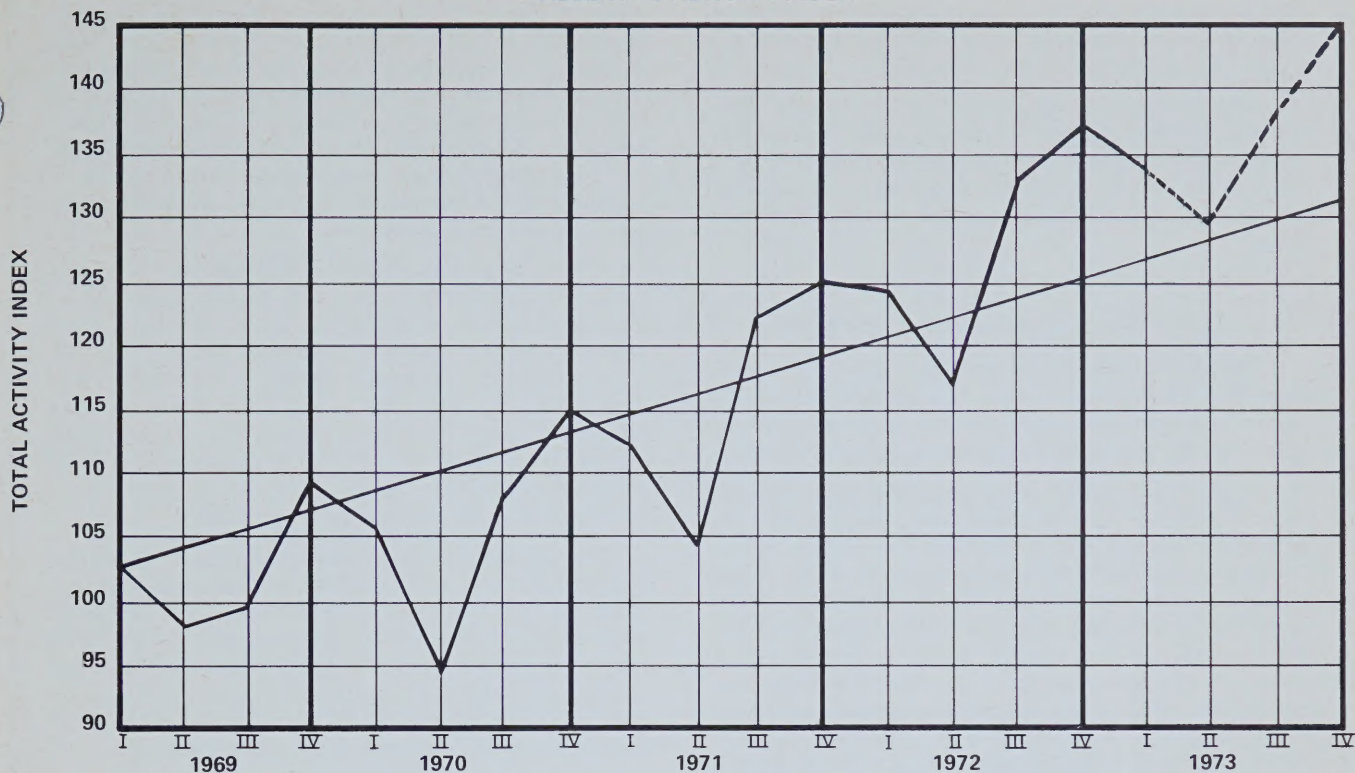


HOUSING

Urban dwelling starts in August, 1973 totalled 1,598 a decrease of 7.6 per cent from the same month in 1972. To the end of August, total starts reached 11,339, a decrease of over 15 per cent from the same period in 1972. Previous forecasts for the third quarter of 1973 at 4,700 starts still appears high, since September's total will have to approach 1,600 to ensure that the third quarter forecast is reached. This is unlikely however, due to significant decreases from 1972 experienced to date. Prospects for the fourth quarter of 1973 are for seasonal declines due to the usual slowdown in house building activity which occurs in the province during the winter months.



ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity		
	Total Year 1971 - 1970	Total Year 1972 - 1971	Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 1.5 (Jan. - Aug.)
Slaughtered Meat Exported	+12.6	+ 5.3	- 1.2 (Jan. - Aug.)
Refinery Production	+10.7	+21.4	+ 8.0 (Jan. - July)
Cement Production	+ 4.5	+ 3.5	+10.1 (Jan. - Aug.)
MINING			
Oil Production	+ 9.4	+20.8	+24.7 (Jan. - July)
Gas Production	+10.1	+16.8	+ 8.9 (Jan. - July)
Footage Drilled	+ 1.8	+21.9	+31.3 (Jan. - July)
Number of Wells Drilled	+ 9.6	+13.1	+36.2 (Jan. - July)
Coal Production	+31.7	+14.1	+ 3.6 (Jan. - July)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 15.1 (Jan. - Aug.)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	- 2.5 (Jan. - Aug.)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+ 9.7 (Jan. - July)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 17.9 (Jan. - Aug.)
Livestock Marketed	+15.1	- 1.6	- 5.4 (Jan. - Aug.)
Farm Cash Receipts	+ 9.8	+14.0	+31.6 (Jan. - Aug.)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+26.1 (Jan. - Aug.)
Lumber Sales	+34.7	+ 5.7	+17.5 (Jan. - Aug.)
Lumber Exports	+26.5	+24.7	+11.3 (Jan. - Aug.)
Pulpwood Production	- 34.9	+47.8	+29.6 (Jan. - Aug.)

UNEMPLOYMENT RATE (Unadjusted)	SEPTEMBER 1973	AUGUST 1973	SEPTEMBER 1972	AUGUST 1972
	4.6	4.5	5.2	5.4
Canada	3.2	3.9	3.3	3.5
Alberta				

CONSUMER PRICE INDEX (1961 = 100)

Calgary-Edmonton	145.0	143.5	134.6	133.6
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\$45 per ton for dehy pellets and cubes. The recent shortages has driven the price up to \$80 per ton and it is expected to go higher before it levels off.

Alfalfa processing plants have proven to be a viable addition to the economy of several small communities. Most of the companies have been getting equipment from the United States, but there might soon be sufficient demand to warrant the manufacture in Canada of some lines.

ALBERTA – INTERNATIONAL AFFAIRS

The recent meeting of the International Monetary Fund in Nairobi ended without any progress being made beyond a commitment by members to tender proposals for reform of the international monetary system by July 1974.

The immediate cause of indecision was the question of convertibility of the U.S. dollar. Since August 1971 the U.S. dollar has not been convertible into gold or Special Drawing Rights. (SDR's) European countries are concerned about the repatriation of the \$70,000 million (U.S.) which is held by their central banks. In addition there exist \$75 billions (U.S.) or Euro-dollars, mainly in Europe, which have not only been a source of speculation, but have also reduced the effectiveness of domestic monetary policies in European countries by providing an alternative source of funds to that normally available through domestic lending institutions.

The achievement of convertibility is dependant upon the ability of the U.S. to buy these dollars back. There are three ways for this to occur. The official price of gold could be increased (devaluing the dollar in terms of gold), thus increasing the value of the U.S. gold stock to cover the cost of repatriation. However this would mean a return to the gold exchange standard by which the value of the U.S. dollar is fixed in terms of gold. This is a solution to which most countries are opposed, as it is this system which so recently broke down.

Another way is for the U.S. to run surpluses on its balance of payments on current account and long term capital account. The U.S. government is in fact encouraging direct investment by foreigners in the U.S. economy as a means of reducing U.S. dollar liabilities abroad. It is also moving into surplus on its balance of payments on current account, but this is creating difficulties with France which does not relish being flooded with American goods, particularly cheap food stuffs which would threaten the E.E.C.'s Common Agricultural Policy, the chief beneficiary of which is France. The present undervaluation of the U.S.

dollar in terms of other currencies means that the U.S. could and is in fact generating a trade surplus. That is why at the GATT meeting in Tokyo, France wanted the currency situation thrashed out before the trade question. The U.S., naturally, has adopted the opposite viewpoint. France feared that the undervalued U.S. dollar would put the U.S. at an advantage in trade talks. The U.S. would be able to bargain with the backing of a strong balance of payments and a competitive exchange rate.

The third possible method is to somehow freeze officially held U.S. dollars. The U.S. would then only be responsible for converting newly created liabilities. However this evades the issue of Eurodollars which would still form a basis for speculation against the dollar and also provide an unregulated base for monetary expansion. More importantly, countries holding surplus U.S. dollars would only agree to such an arrangement if the dollars were made convertible into some other reserve asset such as S.D.R.'s. It is not clear how the latter could be achieved.

The likelihood is, then, that matters will be allowed to drift and this may be no bad thing. The central position which the U.S. fills in world trade means that little can be achieved in currency matters until long-term confidence is restored in the U.S. dollar. Only if the emerging U.S. trade surplus continues for two years or more can that be achieved. The prevailing ad hoc arrangement of floating exchange rates will allow this to occur if it is left alone.

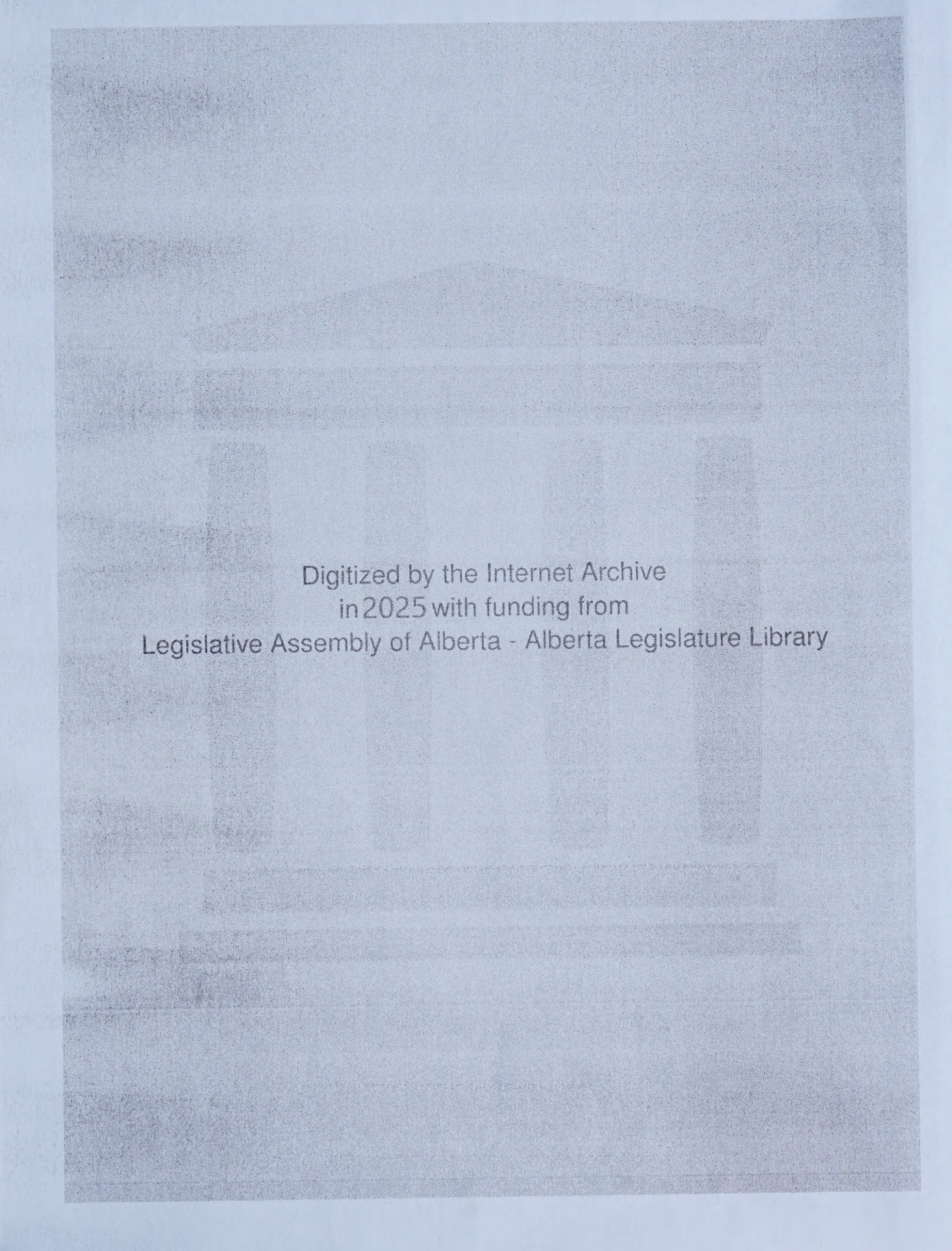
ALBERTA – BUSINESS OUTLOOK

The latest **Financial Times** survey of **Business Opinion** shows a steady erosion of business confidence between February and August. To the question "Do you think the economy is stronger now than it was six months ago" 82 per cent answered 'yes' and 11 per cent 'no' in April but only 54 per cent said 'yes' and 37 per cent 'no' in August.

Expectations about consumer expenditure have been steadily revised downwards. The proportion of the sample who thought that consumers would be spending more freely in the next six months declined from 51 per cent in April to 24 per cent in August, while the proportion who thought the reverse increased from 17 per cent to 57 per cent over the same period.

However this has not prevented a substantial proportion of business opinion from being optimistic about investment in plant and equipment. The percentage who believed that it was a good time for business to expand has remained steady at just under 50 per cent from June to August.

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